United States
Department of Agriculture

Foreign Agricultural Service

September 1985

Foreign Agriculture

Canada: Market on the Move

Marketing News

Historical Shipment of Holsteins Arrives in China

This past spring, a planeload of high-quality U.S.-registered Holstein dairy cattle made a historic journey from the United States to China. Their arrival at Beijing airport represented the first all-registered U.S. Holstein shipment to China in more than 40 years.

Holstein-Friesian Services, Inc. (HFS), a commercial subsidiary of the U.S. Holstein Association, was the exporting firm that negotiated this shipment with the China Dairy Cattle Association and the China National Animal Breeding Stock Import-Export Corporation. U.S. Holsteins were purchased to improve the genetics of China's dairy cattle population.

A selection team from each of the buyer organizations traveled with HFS marketing specialists during late 1984 and early 1985. All animals were evaluated by each team, which included an official veterinarian from the Chinese government. According to Chinese import health regulations, each U.S. farm of origin was evaluated for management practices and the general health conditions of the herds.

When the selection process was finished, a group of Holstein heifers and young bulls was purchased from breeders in Pennsylvania, New York, Maryland, New Jersey, Connecticut, New Hampshire and Vermont. Following a 30-day quarantine and a series of strict health tests, 130 pregnant heifers and 29 breeding bulls were shipped to China aboard a 747 cargo plane.

Following 45 days in a new quarantine facility in China, the heifers were divided between two state farms. The bulls were sent to five artificial insemination organizations and used to improve local dairy herds.

USW Hosts Soviet Grain Quality Team Visit

A Soviet grain quality team hosted by **U.S. Wheat Associates (USW)** has agreed to work with the U.S. Department of Agriculture (USDA) and the private grain trade in carrying out experiments on in-transit fumigation. At present, the Soviets do not permit in-transit fumigation of grain.

As a result of the team's visit to the United States last spring, a shipment of grain was loaded in New Orleans bound for Odessa. The grain contained live weevils in order to test the in-transit effectiveness of different fumigation techniques. U.S. specialists accompanied the vessel to the USSR to ensure that proper procedures were followed and to measure the effectiveness of the fumigation. Additional experiments this past summer were conducted on grain shipments that involved greater cooperation between U.S. and Soviet scientists.

According to Jim Jenks, chairman of U.S. Wheat Associates, "It was our intention to assure the Soviets that in-transit fumigation is safe and effective. The Soviet decision to monitor and take part in such an experiment ensured that the first step in our efforts have been met. Further experiments and crop quality concerns are the next step."

USW Venezuelan Seminar Attracts Key Officials

In response to concerns by Venezuelan millers and traders about the quality of U.S. wheat, USW recently sponsored a two-day seminar in Caracas, Venezuela, covering the USDA's grain inspection, grading and fumigation systems. The seminar was attended by 70 Venezuelan government grain inspectors, wheat millers, private inspection company representatives and members of the grain trade. The seminar included one day of theory and one day visiting the port of La Guaira, where a vessel was discharging wheat. Seminar participants observed a sampling operation, as well as the various procedures used by Venezuelan grain inspectors to analyze the sample for protein content, dockage and foreign material.

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Features

Departments

U.S. Agricultural Sales to Canada Could Top $2 Billion in 1985

By David P. McGuire and George C. Myles

With more than 80 percent of its 25 million inhabitants living within 200 miles of the U.S. border, Canada could not help but be one of the most important markets for U.S. food and agricultural commodities.

Last year, U.S. agricultural sales to Canada reached $1.9 billion, 6 percent greater than in 1983. In 1985, exports are expected to top the $2-billion mark for the first time.

U.S. exporters may have reason for continued optimism because Canada's recent economic performance has been encouraging, despite the fact that it has lagged behind the United States because of slackening world sales of its natural resources.

In 1984, gross national product (GNP) rose 4 percent and is expected to be in the 3-percent range this year. Inflation is currently less than 4 percent annually.

Canada Department of Agriculture

U.S. and Canadian Farm Sectors Compared

U.S. and Canadian agriculture share a number of things in common, not all of them good. For instance, Canadian farmers, like those in the United States, have had to contend with low commodity prices, high input costs and high real interest rates.

Despite the difficulties, both nations can boast of extremely efficient, highly productive agricultural infrastructures.

Canada's farm production, valued at $15.1 billion in 1984, is roughly proportional to U.S. production in terms of per capita output and contribution to the GNP. As a percentage of GNP, Canadian and U.S. agriculture constitute 4.8 and 4.1 percent, respectively.

Canada's farm cash receipts in 1983 were roughly 13 percent of U.S. farm sales, while its population is about 10 percent of the size of the U.S. population.

Although agricultural products comprise a smaller proportion of the total exports in Canada than in the United States (10 percent versus 17 percent), Canadian agriculture is more export-oriented. In 1983, Canada exported one-half of its farm production, while the United States exported one-fourth.

Canadian Farmers Produce a Wide Variety of Commodities

Canada's greater emphasis on exports, as well as its geography, are reflected in the composition of Canadian agricultural production. Canada's food grain production—chiefly wheat—comprises 20 percent of its total farm production compared with 7 percent in the United States.

Feed grains, oilseeds and beef are relatively less important, while hogs are relatively more important than in the United States. Wheat is Canada's largest export, followed by barley and pork.

Despite a harsh climate, the country produces tender fruits such as peaches and plums and a wide variety of vegetables, including lettuce.

The prairie provinces—Alberta, Saskatchewan and Manitoba—are Canada's grain producing regions. In the more populated provinces of Quebec and Ontario, the major enterprises are livestock and dairy. Ontario also produces horticultural items, tobacco, corn and soybeans.

British Columbia on the west coast is a major dairy and horticultural producer, as well as the heart of the wood products industry. The smaller maritime provinces are primarily horticultural producers.

U.S. Fruits and Vegetables Lead Imports

Because of a short growing season that limits the year-round farming of perishable fruits and vegetables, Canada turns mainly to the United States to satisfy a per capita demand for fresh fruits and vegetables that is among the highest in the world.

This demand for fresh U.S. produce as well as dried fruits and nuts makes Canada the most important market for U.S. horticultural products. Canada accounts for about one-third of total exports in this sector, purchasing more than $900 million of U.S. horticultural products in 1984.

Live animal and red meat imports from the United States represent the second most important agricultural import category. Prime slaughter cattle and high-quality U.S. beef fill a significant portion of demand in the food-service market, particularly in eastern Canada. In 1984, U.S. exports of live animals, red meats and other animal products were valued at more than $340 million.

Canada, too, is a major producer of cattle and hogs. In fact, the value of Canadian output of cattle and hogs surpasses its cash receipts for wheat and barley. Consequently, Canada is a major competitor in world markets for live cattle and pork.

Aside from providing competition for the United States, Canada's thriving livestock industry opens a significant market for U.S. soybeans and oilseed products, the third ranked U.S. import. In 1984, Canada purchased $262 million of soybean products for use as protein feed supplements for the livestock, dairy and poultry sectors.

Balance of Trade Is Shifting

Since the early 1980s, the U.S. balance of trade in agricultural products with Canada has been slipping. The decline reflects increased demand for Canadian agricultural products brought on by the stronger purchasing power of the U.S. dollar. Roughly 25 percent of U.S. exports to Canada are complementary, in that they do not compete directly with Canadian products.

Traditionally, the balance of trade in agriculture has been in favor of the United States. Since 1978, however, the value of the Canadian dollar has declined steadily against the U.S. dollar, enabling Canadian agricultural exporters to increase sales to the U.S. market and making U.S. exports to Canada more expensive to buy.

In 1978, Can$1.14 was needed to purchase US$1.00. By early 1985, Canadian importers required Can$1.37 for every US$1.00. Over the same period, the U.S. trade balance with Canada eroded from a 1978-82 five-year average of more than $1 billion to $325 million in 1983 and to $80 million in 1984.

Despite the reduced balance of trade, Canada remains a fast growing market for U.S. exports of agricultural commodities such as horticultural products, meats and oilseeds, a fact which often fails to draw attention because of Canada's fierce competition with the United states for world markets in grains and livestock products. ■

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U.S. Fills More Than 60 Percent of Canada's Farm Import Needs

Item	Total $ Million	From U.S. $ Million	U.S. Share Percent
Red meats (fresh and frozen)	260	101	39
Grapes	123	91	74
Soybeans	78	78	100
Cotton	84	78	93
Live animals	78	75	96
Oranges	98	78	73
Orange juice, concentrate	122	71	58
Lettuce	68	68	100
Tomatoes	79	67	85
Poultry and eggs	63	62	98
Animal feeds	62	59	95
Corn	46	46	100
Nuts	70	42	60
Seed	43	39	91
Potatoes and products	29	28	97
Sugar	185	19	10
Tobacco	20	16	80
Dairy products	83	9	11
Other fruits	587	325	55
Other vegetables	359	257	72
Other oilseeds and products	290	184	63
Other animal products	244	167	68
Other grain products	170	131	77
Other farm products	966	443	46
Lumber	228	219	96
Veneers	27	23	85
Plywoods	62	24	39
Logs, poles, pulpwood	99	99	100
Other wood products	16	15	94
Total	**4,638**	**2,907**	**63**

Canada's Farm Policies Erode U.S. Trade Balance Lead

Canadian Government Travel Bureau

By Kathryn Ting

Although Canada remains among the top five markets for U.S. agricultural products, imports from Canada since 1980 have increased at an average annual rate of 18.5 percent—a trend that may tip the agricultural trade balance in Canada's favor this year for the first time in recent history.

The stronger purchasing power of the U.S. dollar accounts for much of the boost to Canadian exports, but the decline in the traditional U.S. agricultural trade surplus also has focused increased attention on Canadian agricultural and trade policies and the role they play in the balance of trade.

Government Plays Major Role

Canada's federal government plays a more direct role in agriculture than is the case in the United States, and shares this responsibility with the 10 provincial governments. The federal government, however, has exclusive authority over interprovincial and international trade.

Commodity marketing boards stabilize the markets for a number of agricultural products. Although the specific powers of Canada's three national and 80 or more provincial boards vary, their authority generally includes price setting, enforcement of production or marketing quotas, promotion and licensing of growers, processors or dealers.

In many cases, the federal government has delegated the power to regulate exports to provincial governments to enable them to better stabilize their markets.

Crown Corporations Active

Two quasi-private organizations or Crown Corporations—the Canadian Wheat Board (CWB) and the Canadian Dairy Commission (CDC)—also perform several marketing board functions.

The CWB has a monopoly on the marketing of western-grown wheat, oats and barley in international and interprovincial trade. The Board sets initial season prices and makes payments to producers on a price pooling basis. The CWB also regulates delivery of Board grains to elevators.

The CDC regulates Canada's industrial milk (for processing) and cream sector. Its main functions cover control of milk production through a quota system, import controls and exports or purchases of surplus dairy products.

Laws Help Stabilize Markets

The Agricultural Stabilization Act provides federal support of crops and livestock based on historical market prices, using deficiency payments or purchase programs. This law guarantees price support for cattle, hogs, sheep, butter, cheese and eggs, as well as non-Wheat Board oats, barley and wheat. Discretionary support is provided for certain other commodities as well.

The provinces also have implemented stabilization schemes for various commodities which often are administered by commodity marketing boards.

The Agricultural Products Board Act grants the government the authority to stabilize markets through purchases of surplus commodities. The law stipulates, however, that sales of stocks cannot be made at less than acquisition plus handling costs.

Statutory freight rates are available for moving grains from the western provinces to points of export and for moving feed grains to the eastern provinces and British Columbia. The latter, known as feed freight assistance, serves the dual purpose of making domestic feeds more competitive with imports from the United States and assisting the livestock industry.

Supply Management Systems Cover Several Commodities

Under the National Farm Products Marketing Act (NFPMA), several agricultural sectors have adopted a supply management approach.

Broilers, eggs and turkeys. Production and marketing of broilers, table eggs and turkeys are currently regulated by national marketing agencies, or marketing boards. When a national supply management scheme is in effect, the country may, under the rules of the General Agreement on Tariffs and Trade (GATT), limit imports to historical levels. Import quotas must be set as a percentage of domestic production.

A new national marketing agency for broiler and hatching eggs was approved in 1984.

Tobacco. The NFPMA, which since 1972 has been limited to poultry and products, was recently extended to include tobacco. A proposal for the formation of a national marketing board for flue-cured tobacco is currently under consideration.

Dairy and grain products. Canadian restrictions on CWB and DCD products, although "grandfathered" into the GATT in many cases, may also be justified in terms of international obligations by supply management.

National Film Board of Canada

With the exception of hard cheese, for which there is a global quota, Canada imports very little in the way of dairy products. Import licenses are required for wheat, oats, barley and their products. Imports, other than retail packs containing less than 25 percent of the three grains, generally are not permitted when Canadian supplies are available.

Other Restrictions Also Impede U.S. Exports

Wine and beer. Provincial control of the marketing of alcoholic beverages in Canada has limited the potential for U.S. exports of wine and beer to Canada.

Provincial liquor boards insulate their own industries from competition through such practices as requiring higher markups of prices of imported and other Canadian products, and limiting the number of imported products that their retailers may stock (see article on page 9).

Fresh fruits and vegetables. For climatic reasons, Canada must import a large proportion of its fresh fruits and vegetables. At the same time, it protects and fosters its own produce industry through seasonal tariffs and government assistance programs. Restrictions on interprovincial movements of products, such as bulk shipments, sometimes impede U.S. exports.

In recent years, the weak Canadian dollar has allowed Canadian exporters to make significant inroads into U.S. markets, particularly in the Northeast.

U.S. imports of potatoes, for example, rose to a record 225,000 tons in the 1981 season from only 62,000 tons in 1978. U.S. growers often cite Canadian government subsidies as a significant factor in this trend.

The importance of the Canadian market to U.S. horticultural exporters and Canada's efforts to maintain and expand its own horticultural sector have produced some contentious issues over the years. Secretary of

Agriculture John Block and the Canadian Minister of Agriculture John Wise, who meet on a regular basis to discuss agricultural concerns, have agreed to encourage greater cooperation and industry participation in resolving these issues.

Livestock. Although livestock trade between the United States and Canada is reasonably balanced, Canadian exports of pork and hogs have risen dramatically since the late 1970s. The U.S. hog and pork industry recently petitioned for the imposition of countervailing duties to offset subsidies received by Canadian hog growers.

Trade in the beef sector is generally complementary—with the United States exporting primarily high-quality beef for the hotel, retail and institutional market, and importing manufacturing quality beef.

Both countries have meat import laws which serve to stabilize the meat markets by limiting imports when domestic supplies are high, or, in the case of Canada, when imports are disrupting normal marketing.

Canada imposed import quotas under its law for the first time in 1985, but exempted high-quality beef, which comprises the bulk of U.S. shipments.

Technical Barriers Also Affect Trade

Technical considerations such as animal health, packaging, standards and phytosanitary requirements sometimes prevent the free movement of goods across national borders.

The Canadian 30-day quarantine on live hogs imported from the United States to prevent the introduction of pseudorabies, for example, effectively blocks U.S. exports to Canada of hogs for slaughter.

Tighter residue standards and the fact that some pesticides are not approved for use in Canada at times prevents U.S. produce from entering Canada.

Import Relief Laws Protect Domestic Industries

Both countries have laws in place which protect domestic industries from imports of unfairly traded goods or import surges. These laws conform with GATT requirements on calculations of dumping or subsidy margins and proof of injury.

In recent years, Canadian dumping cases have been filed against U.S. refined sugar and western-grown potatoes. U.S. producers have filed charges against dumping of Canadian potatoes and raspberries, and against subsidization of hogs and pork and softwood lumber.

In addition to its countervailing duty and anti-dumping laws, Canada has a fast-track safeguard system for horticultural products. This system provides for the imposition of an automatic surtax on imports of lettuce, cherries, peaches, strawberries and potatoes when prices are unusually low, and a discretionary surtax on other horticultural imports.

Since its introduction in 1979, the fast-track system has been applied only to onions entering Western Canada in 1982/83.

The U.S. government contends that the Canadian system is inconsistent with the GATT since it is triggered by prices, rather than by increased volumes of imports as required by the GATT.

Countries Vie for Third Markets

Canada is the world's second largest wheat exporter and a significant exporter of other feed grains, primarily barley. Canadian rapeseed also competes directly with U.S. soybeans in Europe and Japan.

Changes made in 1984 in the Canadian rail freight export subsidy, known as the Crow's Nest Pass Rate, have boosted Canadian exports to U.S. and third-country markets. While Canada agreed to restrain millfeed exports voluntarily to the western United States, other products such as rapeseed oil, rapeseed meal and dried alfalfa also pose problems to U.S. producers. The United States is pushing for changes when the new legislation, the Western Grain Transportation Act, is reviewed in 1985/86.

Direction of Free Trade Initiatives

Bilateral trade between the United States and Canada may change course in the near future pending the decision of the Mulroney Government as to whether, and how, to pursue trade liberalization with the United States.

Trade could be liberalized on either a comprehensive or sectoral basis. A proposal to consider sectoral free trade was put forward in late 1983 during the Trudeau Government. In the agricultural area, alcoholic beverages and wood products were among the sectors initially examined.

A comprehensive free trade arrangement would be easier to justify under the GATT. While there are indications that Canada is seriously considering this approach, it is not yet clear what areas would be included.

From the U.S. perspective, negotiations for freer trade in agriculture under either approach would need to address more than tariffs alone. Nontariff issues such as provincial liquor board marketing restrictions, import quotas under supply management, restrictions on interprovincial marketing, technical barriers to trade and domestic subsidies must be addressed before trade liberalization can be achieved. ■

The author is with the Western Europe and Inter-America Division, FAS. Tel. (202) 382-0022.

U.S. Winemakers Step Up Promotional Efforts in Canada

By Alexander Bernitz

U.S. winemakers are stepping up promotional programs in an effort to gain more of the Canadian market.

Names like Heitz, Robert Mondavi, Wente Brothers, Sebastiani, Gallo, Paul Masson, Chateau St. Jean and Benoit are appearing more frequently in wine fairs, tastings and other programs designed to increase recognition among Canadian buyers.

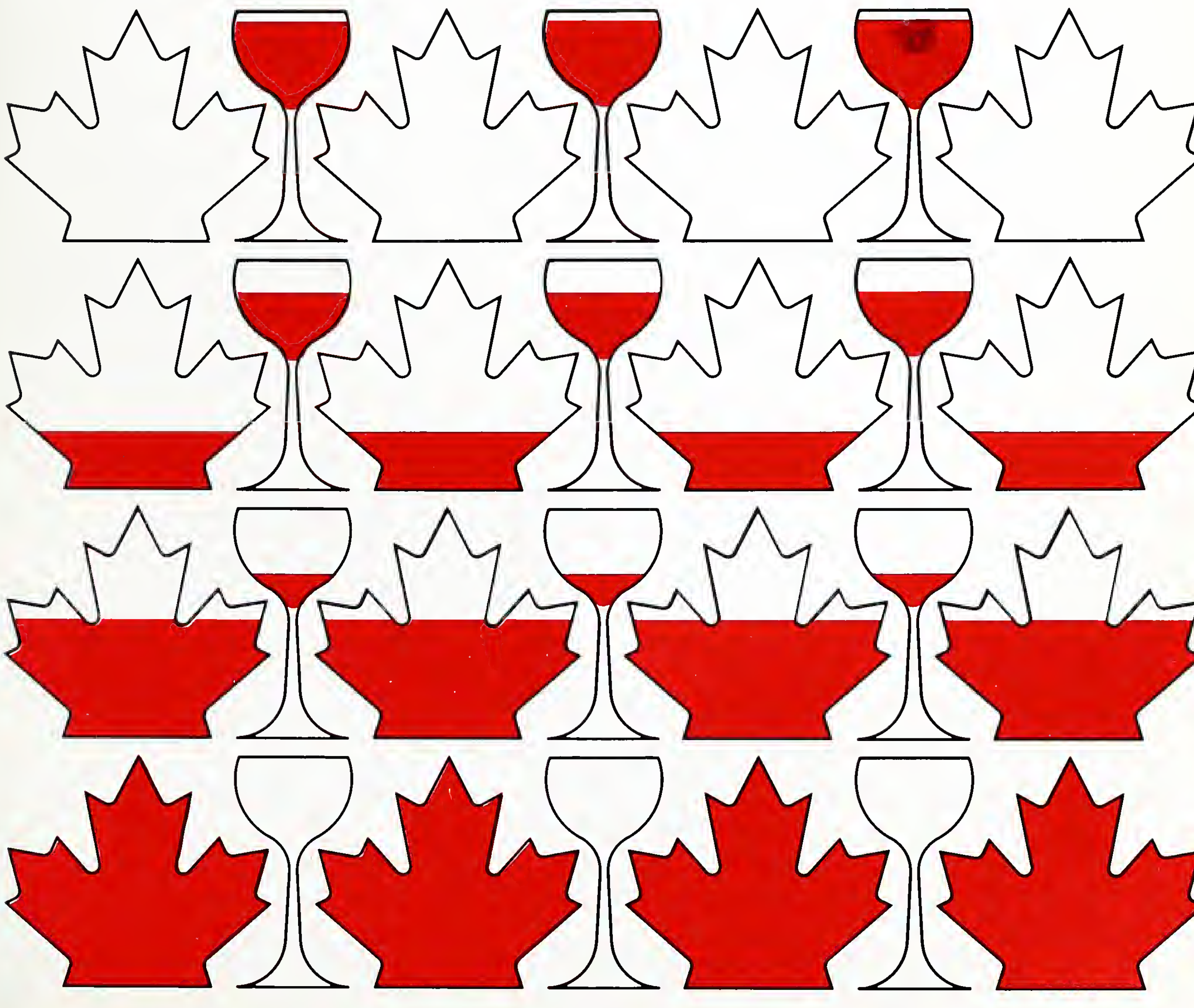
Exports of U.S. wine to Canada average about $10 million per year although in recent years this has been lower for two reasons: the relatively high value of the U.S. dollar compared to the Canadian dollar, and the high value of Canadian currency compared to other currencies.

About 75 percent of the wine shipped from the United States to Canada each year is bulk wine or wine concentrate for use by Canadian wineries for blending or direct bottling. All bottled wine is imported, warehoused and sold through provincial liquor boards which limit the number of imported products that their retailers may stock. Alberta has the most American wines available for sale; Quebec has the fewest.

Provincial Governments Dictate Retail Rules

Provinces have had a monopoly on the sale and distribution of wines and spirits for decades. Decisions on which products will be placed on the shelves of retail stores differ from province to province. In general, the listing process is cumbersome and very competitive.

Markups also differ according to province. In Ontario, for example, the markup is 123 percent on the landed value, which includes product cost, freight, federal duty and excise and sales taxes. The consumer must also pay a provincial sales tax. A bottle of



wine that sells for $4 in the United States would probably sell for about two and a half times that price in an Ontario Liquor Control Board retail store.

As a result of this complex retail system, U.S. promotion of wine has been, at best, a difficult task.

Promotional Organization Formed

To educate Canadians on the quality and diversity of American wines, the Society for American Wines (SAW), a non-proifit organization, was formed in Canada in 1980.

An inaugural promotion was held in Ottawa with a comparison tasting of California cabernet sauvignon and first-growth French bordeaux. The Californian wines took the top five places based on the ratings of nine Canadian and American judges selected from the top wine connoisseurs of North America. The promotion also received wide attention from the U.S. and Canadian news media.

Within a relatively short time, SAW chapters were established in Toronto and Montreal, followed by chapters in Edmonton, Calgary, Quebec City and Halifax. The latest addition is the Winnipeg chapter, established in 1984.

In addition to local chapters, the Society for American Wines operates a national office in Montreal that coordinates two or more wine tastings each year for the chapters, in addition to other events. The major annual event for these chapters is a wine fair held each March by the western chapters and each May by the eastern chapters.

Another group, the Vancouver American Wine Society, operates independent of SAW but does similar work in promoting the variety and quality of American wines.

Promotion Is Cooperative Effort

Promotion of wine in Canada is a cooperative project. Wineries donate wine and provide promotional literature as well as representatives at the promotional functions.

The Foreign Agricultural Service provides some funding used mainly for printing and distributing promotional flyers.

The Wine Institute in California and similar associations in other states provide contacts and followup with the wineries for soliciting participation, consolidating wine shipments and, in the case of the Wine Institute, writing, printing and shipping wine fair programs.

The Society for American Wines takes care of all local logistics including renting the site, securing wine storage and arranging for volunteers.

On-site assistance of the various U.S. consulate generals throughout Canada is provided by the Foreign Commercial Service of the U.S. Department of Commerce.

By sharing the costs of these events, each receives more for their investment than if they attempted to go it alone.

Changes in Wine Retailing Policies

In recent years, there has been some movement among the provinces to liberalize the sale of wine.

After many years of criticism by consumers and the press, Canada's liquor boards and the complex retail system are beginning to change. In British Colombia, for example, local wineries now can operate their own stores, hold promotional events and feature sampling—which usually is not allowed in provinically run stores.

Quebec has begun to franchise its liquor retail outlets in Montreal, although the Quebec Liquor Board will continue to control the importation, distribution and pricing.

Beginning this fall, two private stores will be authorized to operate in Alberta—one in Edmonton and the other in Calgary. The owners can purchase the wines of their choice, but they still must abide by the pricing policies of the Alberta Liquor Control Board.

Ontario may decide to allow sales of wine and beer in grocery stores and other outlets in the near future, with the recent change in the provincial government.

Promotional Programs Seen as Key

Regardless of what happens to wine retailing policies in Canada, U.S. producers agree that they must step up promotional programs in that country. The effort is designed to enhance both export sales and domestic sales to visiting Canadians.

According to Canadian statistics, more than 40 million trips are made to the United States each year for sightseeing and shopping.

As Canadians become more aware of the quality and variety of American wines through tastings sponsored by the Foreign Agricultural Service and the Society for American Wines, they are more apt to buy American wines when they visit this country.

Wineries interested in learning more about promotional programs should contact the Office of the Agricultural Counselor in Ottawa either by telephone (613) 238-5335 or by writing to Agricultural Counselor, U.S. Embassy, P.O. Box 5000, Ogdensburg, NY 13669.

Other contacts:
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Fact File

Harmonized Commodity Description and Coding System: What It Means to International Trade

The Harmonized Commodity Description and Coding System—generally referred to as the Harmonized System—is a commodity classification system that has been under development since 1973 in the Customs Cooperation Council, an international body set up to improve and harmonize customs operations. Negotiations are underway in Geneva to reconcile existing tariff commitments under the General Agreement on Tariffs and Trade (GATT) with the new classification system. If negotiations are completed in time and Congress approves, the United States will begin using the Harmonized System on Jan. 1, 1987—the target date for implementation by U.S. trading partners, including the European Community, Canada and Japan.

On an international scale, the Harmonized System will provide a uniform basis for all foreign trade classification systems, including those used for customs tariffs, import and export statistics and transport documentation.

The system is similar to the Brussels Tariff Nomenclature, now referred to as the Customs Cooperation Council Nomenclature (CCCN). Each article of trade is classified by the four-digit CCCN number, followed by a two-digit suffix representing product subdivisions. The six-digit core can be further expanded by individual countries to express national tariffs or statistical annotations.

The following is an example of the numerical structure:

07.10	Vegetables (whether or not cooked by steaming or by boiling in water), frozen.
0710.10	Potatoes
	Leguminous vegetables, shelled or unshelled:
0710.21	Peas *Pisum sativum*
0710.25	Beans *Phaseolus sp.p.; Vigna mungo (Willd.), Vigna angularia (Willd.)*
0710.29	Other
0710.30	Spinach, New Zealand spinach and orache spinach (garden spinach)
0710.40	Sweet corn
0710.80	Other vegetables
0710.90	Mixture of vegetables.

General Structure of the System

The Harmonized System contains approximately 1,250 main headings (four-digit level), 2,500 initial product subdivisions (five-digit level), and nearly 5,000 secondary subdivisions (six-digit level).

For the most part, products are organized according to levels of processing so that primary products are classified first. Agricultural products, for example, appear in chapters 1 to 24, and machinery and most manufactured goods are classified in subsequent chapters. Two additional chapters are available for national use for items such as temporary increases or decreases in tariffs, and blanket duty exemptions such as articles for the handicapped or personal possessions of diplomats.

Within a chapter, headings containing primary products appear first. For example, the chapter that covers edible vegetables begins with the primary product in fresh or chilled form, followed by the frozen product, and finally the dried product.

Like all import classification systems, the Harmonized System includes categories that cover all articles of trade. Procedures are spelled out for classifying products that are

unfinished or are made of a mixture of materials. Likewise, classification criteria cover products that are classifiable under two or more headings.

To aid in the interpretation of the Harmonized System, the Customs Cooperation Council has prepared explanatory notes for each chapter to help clarify the types of articles intended for coverage under each heading. The international nomenclature will be maintained by the Council's Harmonized System Committee (HSC). Proposed amendments and classification disputes will be submitted to this committee for consideration or arbitration. If agreement cannot be reached in the HSC, the issue is referred to the Council for a final decision.

Neither the explanatory notes nor amendments to the nomenclature are binding. However, it is anticipated that they will be used by most countries adopting the Harmonized System.

Countries that adopt the system must use the full six-digit code without modification of the numerical sequence. Developing countries may partially apply the system but must work toward full implementation within five years.

In the new U.S. tariff schedule, each product would be identified by a 10-digit numerical code. In accordance with the rules, the first six digits would denote the Harmonized System nomenclature. Digits 7 and 8 would code national subheadings for the legal tariff, and digits 9 and 10 would code any statistical annotations.

Purpose and Benefits

In addition to ensuring uniform customs classification, the Harmonized System will standardize trade documentation and the transmission of data, and will serve as a common trade language in the negotiation, application and interpretation of trade agreements. From an economic standpoint, the system will lower the cost of exporting by reducing the expense of reclassifying and recoding goods as they move through international trade.

The Harmonized System also will improve the accuracy and comparability of trade statistics. In today's trading system, detailed and aggregate trade data are increasingly relied upon in determining foreign economic trade policy. They are essential in balance-of-trade calculations, in sales and market analysis and in determining domestic consumption. Data also are used extensively in escape-clause actions and dumping and subsidies investigations, as well as in the negotiation of trade agreements and other policy applications.

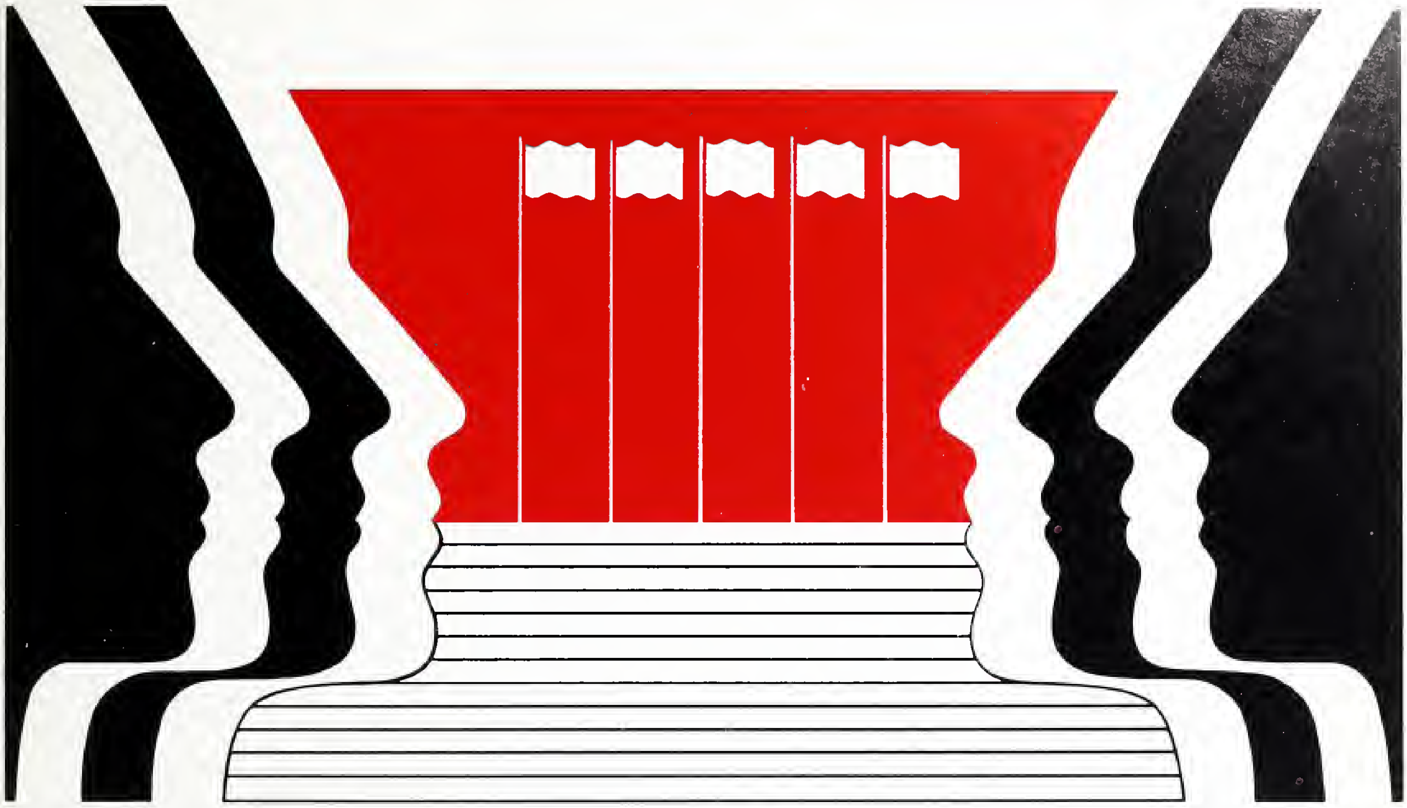
Present Status

The United States participated in the Customs Cooperation Council to develop both the Harmonized System nomenclature and the international convention that will implement the system. The work was completed in June 1983.

A draft of the U.S. tariff schedule in the Harmonized System format was completed by the U.S. International Trade Commission in December 1983. The Trade Policy Staff Committee, chaired by the U.S. Trade Representative's Office, reviewed the draft and a revised version was published in September 1984. Meanwhile, U.S. trading partners have gone through a similar process.

Before the new system can be implemented, negotiations must be completed to reconcile existing tariff commitments with the new tariff schedules. Some foreign as well as U.S. duty rates will change in this process, and U.S. exports of agricultural products may be affected. So far only the major developed trading nations are participating in the negotiations, which are scheduled to conclude in early 1986. Once the negotiations are completed, the new national tariffs can be submitted to national legislatures for approval.

A New Trade Round for Agriculture?



By Elisabeth Schuler

As the United States faces record-breaking trade deficits in 1985, awareness of the critical impact of foreign trade on the U.S. economy continues to grow, creating momentum for action at both the national and international levels.

President Reagan has called on U.S. trading partners to agree to a new round of multilateral trade negotiations starting in 1986 and aimed at expanding trade and strengthening the world economy.

Of primary concern is dismantling barriers of trade, which have proliferated in recent years. The protectionist pressures that have given rise to these trade barriers are rooted in slower economic growth in many parts of the world, difficult adjustments problems in basic industries here and abroad, the large debt burden of many developing countries and the burgeoning U.S. trade deficit.

The United States views a new trade round as a prerequisite for rolling back the restrictive measures that have distorted international trade in recent years.

Past Trade Rounds

Since 1947, seven international trade rounds have been held under the auspices of the General Agreement on Tariffs and Trade (GATT), the multilateral agreement covering the conduct of world trade.

Typically, these negotiations have involved mutual, balanced reductions in industrial tariffs. As a result, tariffs have been reduced significantly and with some exceptions are no longer the most important barrier to trade.

Instead, non-tariff barriers to trade—quotas, licensing procedures, technical and administrative requirements and variable import levies—have replaced tariffs as the main obstacle to free trade.

Codes of Conduct

Although tariff reduction was still a major item on the agenda of the last multilateral trade negotiations, the Tokyo Round (1973-79), substantial attention was devoted to developing "codes of conduct" for international trade to deal with several increasingly troublesome non-tariff barriers.

The code of conduct that was to have the most significance for agriculture was the Code on Subsidies and Countervailing Duties. The Subsidies Code was intended to eliminate the adverse effect of export subsidies and to address the problem of domestic subsidies and their impact on trade. It includes a ban on subsidies aimed directly at export promotion for so-called non-primary products.

For primary (agricultural) products, the Code also reaffirms provisions of the GATT saying export subsidies are permitted, but may not be used to gain more than an equitable share of the world export trade or to undercut world prices.

It is the term "equitable share of the world market" that remains ambiguous. Many GATT members do not agree on what constitutes an equitable share or whether any market share gained through subsidies is necessarily inequitable.

As many U.S. agricultural exporters have discovered first hand, competition from subsidized exports, particularly from the European Community (EC) and Brazil, has led to a significant decline in the U.S. share of certain traditional markets.

Poultry exports are a prime example. Making regular use of export subsidies on poultry, Brazil and the EC have become the two main suppliers of broilers to the Middle East, eroding the U.S. market there.

Improving the Rules of the Game

The increasingly bitter dispute over the meaning of fair agricultural trade has forced the international trade community to recognize the urgent need to improve the rules of the game.

In November 1982, the GATT ministers established a Committee on Trade in Agriculture (CTA) to strengthen and improve GATT agricultural rules as a basis for future efforts to secure trade liberalization.

The work of the Committee is targeted toward market access, trade practices (particularly subsidies) and technical barriers to trade. The Committee must examine and make recommendations by November 1985 on all measures affecting agricultural trade, market access and competition.

The U.S. Objective

The U.S. objective in the CTA is to bring all subsidies under more effective GATT rules and disciplines. U.S. negotiations have proposed a general prohibition on the use of subsidies, subject to clearly defined and limited exceptions, along with improvements in existing rules.

The EC, on the other hand, prefers only a "clarification" of existing GATT rules on export subsidies. Furthermore, the EC had indicated that it is not prepared to give up its rights to subsidize agricultural exports as long as these subsidies do not lead to more than an equitable share of the market for the exporter.

At this point, it is unclear whether the CTA will produce any agreement on this question.

Prospects for a New GATT Trade Round

The United States has made agricultural trade a priority in the proposed new multilateral trade round. In addition to the unprecedented focus on agriculture, a number of new trade issues would make these talks unique.

Emerging issues include trade in services and high technology products, protection on intellectual property rights and investment trade barriers. Traditional market access negotiations likely will be included, but the central focus will be on these new trade issues.

Although U.S. officials are working to secure agreement on the purpose, agenda and timing of a new trade round, international consensus remains elusive.

The EC officially supports the principle of a new trade round, but disagrees on which agricultural issues might be subject to negotiation.

In addition, some European leaders feel that exchange rate issues must be addressed in a parallel negotiating forum. The Unites States agrees that exchange rates are a subject for discussion, but does not want European agreement to a new trade round tied to the condition of a formal monetary conference.

Participation Is a Difficult Issue

Participation in a new trade round by developing countries is another difficult issue. India and Brazil, for example, have expressed reservations about joining. Many developing countries question the relevance of the issues to their own economic situations.

Contrary to U.S. expectations, the heads of state of the seven major industrialized nations failed to agree on a start date for the new talks at their Bonn economic summit last May.

Protectionist Pressures Mount

Without early agreement on the start of a new trade round, protectionist pressures in the United States continue to build. Thus far, the Administration has resisted taking any trade restrictive actions that might conflict with U.S. stated objectives for agriculture in a new trade round.

However, in May 1985, Secretary of Agriculture Block announced a $2-billion export bonus program under which government-owned commodities would be offered to U.S. exporters to expand sales of agricultural commodities in targeted markets.

The program is intended to gain back some of the markets that have been unfairly taken by foreign competitors.

In announcing the three-year program, Secretary Block emphasized that the United States remains fully committed to market-oriented international trade policies. However, until agricultural policies allow the United States to be competitive and until a fair trade environment exists around the world, the United States will pursue the bonus program and other export enhancement initiatives. ■

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United States and Israel Establish Free Trade Area

By Abraham Avidor

The United States and Israel have signed an agreement to set up a free trade area (FTA) beginning September 1.

The agreement—the first of its kind undertaken by the United States—will eliminate most trade barriers between the two countries over the next 10 years.

Israel is one of the largest commercial markets for U.S. agricultural exports in the Middle East. Last year, U.S. exports to Israel were valued at $309 million, primarily soybeans, wheat, corn and sorghum.

In turn, the United States imported $59 million of agricultural products from Israel in 1984. Horticultural products—primarily processed tomato products, fresh and processed citrus, processed vegetables, processed olives and nursery products—comprised most of the total.

Trade Impact

The agreement offers only limited immediate potential for growth in U.S. agricultural sales to Israel because about 90 percent of U.S. exports by value already enter Israel duty-free, as state-traded imports. These include wheat, sorghum, corn, soybeans and frozen meat. Moreover, most value-added items and processed foods are subject to licensing and quantitative restrictions, which Israel will continue to maintain in varying degrees.

However, in the longer run, under the FTA, U.S. exports of such products as dried fruit, nuts, wood products, tobacco, wines and processed meats could show some gains if significant minimum access levels were established.

Israel, in turn, could gain significantly from the FTA, particularly in the horticultural area, as its agricultural exports would benefit from a sizable tariff margin of preference in the U.S. market.

Product Coverage

The FTA, consistent with the General Agreement on Tariffs and Trade (GATT) rules, is comprehensive with respect to trade coverage. Tariffs on all products will be eliminated within 10 years, in four stages, as follows.

• On Sept. 1, 1985, duties will be eliminated on products which are nonsensitive in terms of U.S.-Israel trade and those eligible for the U.S. Generalized System of Preferences.

• By January, 1989, duties will be eliminated in three steps on products with the least amount of trade sensitivity.

• By January 1995, in eight gradual steps, duties on the more sensitive items will be eliminated. These include artichokes, fresh grapefruit and avocados.

• Tariffs on products identified by the U.S. International Trade Commission (USITC) as the most import sensitive will remain at their current levels until January 1990. These include processed tomato products, citrus fruit juices, dehydrated onion and garlic, fresh cut roses and most varieties of olives. The eventual duty rates on these products will be determined following re-examination by the USITC and consultations with Israel.

Horticultural Products Top List of U.S. Agricultural Imports from Israel
(In million dollars)

Commodity	1983	1984
Horticultural products	37.8	41.7
Tomatoes, prepared & preserved	11.1	7.9
Nursery products	3.6	5.3
Tomato sauce	3.9	4.3
Tomato paste	5.6	3.5
Citrus, fresh	.7	3.5
Vegetables, dried & dehydrated	1.9	3.1
Citrus, prepared & preserved	1.9	2.7
Olives	1.7	2.3
Alcoholic beverages	1.7	1.8
Fruit juices	1.4	.9
Other	.3	6.4
Sugar & tropical products	5.6	6.7
Dairy, livestock & poultry	2.3	5.3
Grain & feed products	3.7	4.3
Seeds	1.0	.8
Total	**50.5**	**58.8**

Israel will have an extensive list of products on which tariffs will remain unchanged until 1990. As a result, the United States initially will not benefit from tariff preferences on most processed foods.

Israel To Eliminate Export Subsidies

Within six years after formation of the FTA, Israel will eliminate its export subsidies for industrial products and processed foods.

Under the agreement, Israel also will join the GATT Subsidies Code and become eligible for the U.S. injury test on countervailing duty cases.

Grain and Feed Products Lead in U.S. Agricultural Exports to Israel
(In million dollars)

Commodity	1983	1984
Grain & feed products	170.4	180.1
Wheat	60.9	86.2
Sorghum	54.6	73.6
Corn	50.4	16.0
Other	4.5	4.3
Oilseeds & products	101.4	98.2
Soybeans	99.9	96.9
Other	1.5	1.3
Cotton, linters & seeds	2.5	13.1
Horticultural products	8.1	5.7
Dairy, livestock & poultry	9.0	5.4
Livestock products	7.8	4.3
Dairy & poultry	1.2	1.1
Tobacco	3.8	5.0
Sugar & tropical products	2.1	1.3
Total	**297.3**	**308.8**

However, U.S. laws covering antidumping, countervailing duty and other unfair trade practices would continue to apply to imports from Israel under the agreement.

Agricultural Protections Maintained

Except for customs duties, both nations may maintain import restrictions for agricultural policy reasons. Accordingly, U.S. import quotas on dairy products, sugar, peanuts and cotton, and the administrative licensing of some dairy products will remain in effect.

Moreover, a fast-track emergency safeguard provision has been established by U.S. law to protect U.S. growers, shippers and processors of fresh produce against a possible surge in injurious imports from Israel resulting from tariff reduction on elimination.

Anyone who files a petition under Section 201 of the Trade Act of 1974 on specified perishable commodities such as fresh fruit, vegetables, nursery products or concentrated citrus juice, may at the same time petition the Secretary of Agriculture for emergency relief action.

If emergency action is warranted, a decision by the President must be reached within 21 days. Any duty reduction then could be suspended immediately and the Most-Favored-Nation rate could be reinstated. At the same time, the USITC would proceed with its Section 201 investigation and its ruling would be final.

Dispute Settlement

A joint committee will oversee implementation of the agreement. The committee may hold consultations on any matter affecting operation of the agreement. It may also establish working groups and delegate its power to them.

The United States and Israel have agreed to try to resolve disputes through consultation and conciliation. If this process does not result in a satisfactory solution, both countries would retain their right to withdraw concessions. ■

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nternational Banking Services Smooth Export Transactions

y David M. Henneberry and hida R. Henneberry

Many small- to medium-sized gribusiness firms could profitably lug into the export market, but are in-imidated by the complexity of interna-ional transactions. But these transac-ions can be made almost as easily as lomestic sales through the use of arious international banking services.

nd thanks to the expansion of many egional banks into the international rena in recent years, exporters do not ave to be in or near a major money narket to have access to the full ange of these international banking ervices. Instead, they generally can et prompt and personalized service airly close to home.

The most commonly provided services of an international banker are those associated with the international transfer of funds.

However, an international banking department can help with many other aspects of the export business as well. For example, it can help ex-porters find new customers or agents, locate new overseas markets and analyze their potential, train employees in the mechanics of export documentation and obtain credit infor-mation on potential customers.

Many of these services are provided free of charge to clients who pursue a long-term involvement in export sales.

Typical Services Offered

Following is a rundown of the typical services available to U.S. exporters by an international banking department.

International Letters of Credit. Since export sales cross national boundaries and legal jurisdictions, the letter of credit is an essential element in many overseas transactions. Defined very simply, it is a document which substitutes the bank's credit standing for that of the exporter or importer.

Letters of credit come in many forms:

• An irrevocable, confirmed letter of credit is used to eliminate the risk that the foreign buyer will not make payment for the goods received.

• In the case of an ordinary commercial letter of credit used to finance trade, the main conditions are that the third party (the beneficiary of the letter of credit) ships goods to the bank's customer and then submits appropriate shipping documents to the bank along with the letter of credit. Payment of the drafts is made upon compliance with the conditions specified in the letter of credit.

In an export sale, the exporting firm will receive a letter of credit from the importer's bank. In an import purchase, the importing firm sends a letter of credit to the foreign seller's bank.

Bankers' Acceptances. Bankers' acceptances are one in a broad class of credit instruments known as bills of exchange.

A bill of exchange is an order to pay a specified amount at a specific time drawn on individuals, firms or banks. When the drawee formally accepts responsibility to honor the draft (by stamping "accepted" on the face), it becomes an acceptance.

A "bankers' acceptance" is from a bank and a "trade acceptance" is from an indidivual or firm.

A bankers' acceptance is a negotiable instrument which the payee or holder may discount in the money market. Since the accepting bank bears the responsibility of providing payment at maturity, and the drawer is obliged to make payment if the bank cannot, a bankers' acceptance is considered to be a low-risk money market investment.

Bankers' acceptances are principally used to finance international trade, often in association with letters of credit. However, a bank may provide acceptance financing as a result of a less formal commitment than a letter of credit.

FOREX Services. If an exporter is willing to receive payment in a foreign currency, an international banker provides access to spot and forward foreign exchange markets so that the foreign currency may be converted into dollars and the exporter can be protected from the risk of adverse changes in the exchange rate.

If an exporter prefers payment in U.S. dollars, an international banking department is able to provide the same service for the foreign buyer, thus facilitating the export process.

International Remittances and Overseas Collections. International banking departments have direct facilities for remitting and receiving U.S. dollars or foreign currencies. These transfers may be made by cable, telephone or mail to any foreign location.

International remittances are frequently used when an exporter extends a line of credit to the foreign buyer through his accounts payable in order to increase the size of an export sale.

Foreign receivables may be in the form of invoices, documentary drafts, clean drafts, checks or overseas bank coupons. An international banking department can handle the collection of foreign receivables in any form. In this way, an exporter can deal directly with the international banking department and does not have to become involved in the actual mechanics of the international transaction. Thus, the sale may proceed as smoothly as if it were a domestic transaction.

Traveler's Letters of Credit. International business occasionally requires overseas travel with large sums of money. A traveler's letter of credit can provide an exporter with a safe and reliable means of mobilizing financial resources overseas.

Travelers checks also may be used, but they are not a usual means of payment because of their expense and small denomination relative to the size of an export sale.

Financing Overseas Clients. An exporter may encounter a foreign buyer who lacks the credit necessary to import the product. At times an international banking department can facilitate a sale by providing financial services to the overseas buyer. This financing may be provided by the international banking department or through the network of foreign banking correspondents.

Insurance and Guarantees. The competitive nature of world markets has increased the frequency of exporter-financed purchases that are subject to political and financial risk. An international banking department can help a U.S. exporter reduce these risks through the use of Foreign Credit Insurance Association insurance and various government-backed payment guarantees.

Government-backed guarantees are available from the U.S. Department of Agriculture (the Export Credit Guarantee Program) as well as the Export-Import Bank.

Eurocurrency Deposits. A eurocurrency deposit is an interest-bearing account denominated in a currency outside of its country of origin (for example, Mexican europeso deposits in a Chicago bank).

Eurocurrencies provide a means of holding assets that are protected from political risks such as foreign exchange controls. Many customers prefer to have their deposits in the eurocurrency market, particularly if they are to be used for trade payments.

The interest rate on eurocurrency deposits and loans is typically higher than that offered within the home country. Generally, the rate is calculated as a discount or premium to the London Interbank Offer Rate (LIBOR). ■

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Value-Added Exports: Better Protection Against Economic Shocks

By Joan Braaten

Value-added and high-value farm products have demonstrated greater sales stability than bulk exports in recent periods of economic downturns.

Unlike bulk products, value-added items have undergone some type of processing. On the other hand, high-value items are unprocessed products that are relatively expensive per unit due to high transportation or storage costs. For instance, citrus fruits fall in this category because their perishable nature leads to high transportation costs.

The United States is lagging behind some of its major competitors in the race for world markets for these items.

In 1970, over two-fifths of all U.S. agricultural exports were value-added items. By 1983, this share had fallen to about one-third. By that time, though, 74 percent of the European Community's (EC) agricultural exports, 57 percent of Brazil's, 78 percent of New Zealand's and 95 percent of Spain's were value-added or high-value items.

Here is a brief look at how U.S. commodity groups have fared recently in the world market. Trade data apply to calendar years.

Grains and Feeds: Value-Added Items Show Smaller Decline

Since 1981, U.S. value-added exports of grains and feed products have declined less than bulk shipments.

Grain and feed products, valued at $16.7 billion, accounted for nearly one-half of all U.S. agricultural exports in 1983. Most of these were bulk shipments. Value-added products, which comprised only about one-sixth of the total, declined 5 percent during 1981-83.

Polished rice, corn gluten feed, animal feedstuffs and wheat flour make up nearly four-fifths of U.S. high value and value-added grain and feed exports.

The Netherlands remains the top U.S. market for animal feeds and corn gluten, accounting for 38 and 77 percent, respectively, of total U.S. exports of those items.

Purchases of some animal feeds have fallen recently, partially as a result of substitutes, such as feed wheat, and EC-prescribed limits on milk production that reduces demand for animal feeds. However, Dutch imports of U.S. corn gluten, used as dairy rations, rose 25 percent between 1981 and 1983.

Iraq and Saudi Arabia took almost half of U.S. rice exports last year, while Egypt alone purchased more than half of U.S. wheat flour exports.

Wheat and corn account for 90 percent of U.S. bulk sales of grain and feed products. Since 1981, the USSR and Japan—the top markets for these items—have purchased about one-fourth of all U.S. shipments.

Besides these two buyers, the most lucrative markets have been the Republic of Korea, Taiwan, China, Brazil and Mexico.

U.S. wheat exports to the USSR increased 87 percent in volume and 51 percent in value between 1981 and 1984, while exports to China fell substantially in 1984. Marginal increases were registered in U.S. corn exports to Japan and Taiwan, but those to the USSR increased 78 percent in value.

Oilseeds & Products: Exports Weaken in Face of Stronger Competition

Oilseeds and products constitute the second largest U.S. export group

behind grains and feeds. With export sales totaling $8.6 billion, this commodity group accounted for 23 percent of U.S. farm exports in 1984. After gradually increasing throughout the seventies and early eighties, these shipments have declined over the past few years.

Increased foreign competition coupled with lower demand have led to declines in both bulk and value-added exports.

U.S. exports of value-added oilseed products totaled $2.6 billion in 1984, down 20 percent since 1980. The most notable decline has been in soybean oilcake and meal, which accounted for nearly 40 percent of these exports in 1984.

Other important value-added oilseed exports include oils processed from soybeans, corn, cottonseed and peanuts.

The EC remains the top recipient of value-added oilseed products, purchasing more than 40 percent of these exports in 1983. But other markets, such as Eastern Europe, South America and North America, have been expanding rapidly. Leading buyers in these regions include Poland, Hungary, Venezuela, El Salvador, Mexico and Canada.

The EC and Far East continued as the two leading markets for U.S. bulk oilseed products by purchasing two-thirds of the total. Before 1975, growth in EC sales was slightly greater than those to the Far East. Since then, U.S. exports to the Far East have outpaced those to the EC.

Soybeans constitute 97 percent of the U.S. bulk oilseed exports, with about one-fifth of these shipments routed to Japanese ports last year. In the EC, the Netherlands continues to be the major buyer, but Dutch purchases have dropped substantially since 1980. The reasons include increased competition from Brazil and Argentina, the substitution of rapeseed, increased feeding of grain which requires less protein, and reduced demand due to slow economic growth in the EC.

Dairy, Livestock and Poultry: Value-Added Sales Up in the Far East

U.S. exports of dairy, livestock and poultry products expanded 80 percent throughout the 1970s, but by 1983 they had fallen below the 1979 levels.

Since 98 percent of all U.S. exports in this category are value-added or high-value items, they were largely responsible for the overall decline. With the exception of the Far East, all major regions showed negative growth in value-added purchases during 1981-83. The Far East, however, increased its purchases from the United States, buying 40 percent of total U.S. exports of value-added products in this group in 1983.

Tallow, hides and skins and fresh and frozen beef account for more than half of U.S. exports of value-added products in this commodity grouping. Egypt was the major tallow market last year, showing a sales gain of 30 percent since 1981.

Japan remains the leading market for U.S. exports of hides and skins (28 percent) and fresh and frozen beef (78 percent). Because of the relaxation of quota levels, the value of U.S. exports of fresh and frozen beef to Japan has more than doubled since 1981.

Cotton, Tobacco and Seeds: Exports Expand to Asia and Middle East

Total exports of U.S. cotton, tobacco and seed products fell from $5.3 billion in 1980 to $4.5 billion in 1983. Value-added and high-value product exports actually grew on average over the same period, and now account for 26 percent of all exports in this commodity group.

The largest regional markets were the EC, the Far East and the Middle East. Together, these regions purchased nearly three-fourths of U.S. value-added cotton, tobacco and seed exports in 1983.

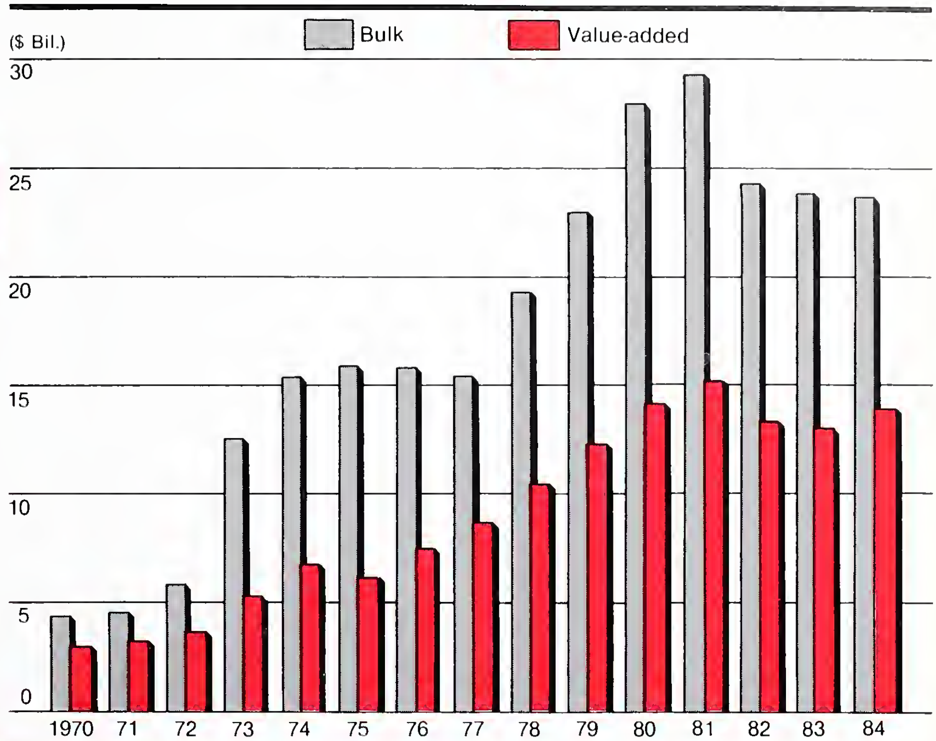
Cigarettes alone accounted for 95 percent of all U.S. value-added exports in this commodity group.

For bulk products, raw cotton and leaf tobacco comprised some 92 percent of the export total. Japan (25 percent) and Korea (19 percent) were the leading purchasers of U.S. cotton, while Japan (19 percent), West Germany (12 percent) and Spain (11 percent) were the top buyers of U.S. tobacco.

Japan has expanded its cotton purchases 15 percent in value since 1980, but shipments to Korea have fallen 3 percent. However, in terms of volume, cotton exports to Japan were up 17 percent and declined by more than 9 percent to Korea.

U.S. tobacco exports to Japan rose 45 percent, and those to Spain jumped 182 percent. Tobacco exports increased by 17 percent in volume to Japan and 83 percent to Spain. However, shipments to West Germany declined by 21 percent in value and 34 percent in volume.

U.S. Value-Added Exports Generally Show More Market Stability Than Bulk Shipments



Horticultural and Tropical Products: Exports Decline Since 1981

For the past 15 years, value-added products have consistently comprised more than 95 percent of U.S. horticultural and tropical product exports. Total exports of this commodity group rose steadily through 1981, then dropped roughly 20 percent the following year. Over the past two years, exports have declined slightly.

In most commodity groups, a few products account for the majority of total exports. This is not true for horticultural products.

Yet, three main groups—citrus and non-citrus fresh fruits, shelled tree nuts and fresh and chilled vegetables—account for over 40 percent of the total export value.

The United States shipped nearly 60 percent of its value-added exports to the Far East and North America in 1983. Japan, Hong Kong and Canada were the leading destinations. During 1981-83, shipments to the Far East rose 3 percent as those in North America fell 25 percent.

U.S. exports of citrus fruits last year went mainly to Japan (50 percent) and Canada (24 percent). Over 40 percent of other fruits and nearly 80 percent of fresh and chilled vegetables crossed the border to Canada. For tree nuts, West Germany and Japan together purchased about one-third of U.S. exports.

North America was the most lucrative regional market for bulk horticultural products in 1983, with Canada taking 93 percent of these shipments. The next largest market was the Far East, with Japan the top buyer (27 percent). ■

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Country Briefs

Egypt

U.S. in Good Position To Supply Soybeans

Egypt's oilseed sector continues to grapple with the continuous decline in cotton production. As Egyptian farmers have shifted away from cotton production, they have not moved to any great extent into soybeans, as many planners had expected. Thus, new crushing facilities built in anticipation of large-scale soybean production have remained idle. Excess soybean crushing capacity stood at about 200,000 metric tons early this year.

Consequently, the Egyptian government has decided to import soybeans for the first time. This important marketing opportunity was seized by the United States, which has offered Export-Import Bank credit facilities.

Until soybean processing is stepped up, Egypt also is expected to continue to import vegetable oil (cotton and sunflowerseed) in record volumes. An important trend in this area is the government's expressed intention to buy as much as possible on the basis of government-to-government supply agreements, rather than via tenders. This was underscored by the recent announcement of such an agreement with Hungary for the supply of sunflowerseed oil.

On the meal side, soybean meal is now eclipsing the traditional cottonseed cake as the major protein source in feed rations.—*Gerald W. Harvey, U.S. Agricultural Counselor, Cairo.*

France

New Sunflowerseed Crushing Plant Planned

The French Ministry of Industry and Foreign Trade and the Ministry of Agriculture recently approved the construction of a crushing plant for sunflowerseed at Chatellerault in west central France. The new plant will allow France to reduce its imports of sunflowerseed oil and meal significantly. Imports currently account for 40 to 50 percent of the domestic consumption of sunflower oil and meal.

The new plant will increase the present French crushing capacity for domestically grown oilseeds by 180,000 tons a year, or more than 10 percent. The plant operations also will include refining of oil and decortication of meal. The new crushing plant is not likely to begin operation before the 1987/88 marketing year.

Increased French production of decorticated, high protein sunflowerseed meal may increase the domestic use of sunflowerseed meal. This is expected to depress U.S. soybean exports to France.—*Ernest Koenig, U.S. Agricultural Counselor, Paris.*

Netherlands

Surge in Peanut Use Prompts Larger Imports

The Netherlands is one of the world's most important consumers of peanuts. Preliminary data indicate that consumption reached roughly 100,000 tons, inshell basis, in 1984. Part of this increased demand undoubtedly is resulting from a promotion campaign for peanut butter by the market leader. However, some of this increase could include peanut product exports that have not been fully accounted for in the Netherlands export data. Since peanuts are no longer used for crushing, most of the imported peanuts are roasted for use as direct (snack) consumption or are manufactured into peanut butter.

Dutch peanut imports reached an all-time high of 119,884 metric tons, inshell basis, in 1984, which was up nearly 17 percent from the year before. Imports from the United States also reached a record high in 1984 of 54,246 metric tons, inshell basis, which was more than a third higher than in 1983. As a result, the proportion of U.S. peanuts in total Dutch imports advanced from 39 percent in 1983 to 45 percent in 1984. However, the U.S. share is still short of the record 55 percent achieved in 1978.

As Dutch exports of raw peanuts and peanut products continue to grow in 1985, it is expected that present high import levels will be maintained and the share of U.S. peanuts might show further gains.—*Rolland E. Anderson, Jr., U.S. Agricultural Counselor, The Hague*

Spain

Imports of U.S. Tobacco Likely To Fall

Spain is a large market for U.S. tobacco, importing $167 million worth in 1983 and ranking as the second largest market after Japan. However, the Spanish government recently announced a five-year plan (for the 1985/86-1989/90 crop years) that stresses increased production of flue-cured and nonfermented burley tobaccos—which are largely imported. Flue-cured and nonfermented burley are needed to meet growing demand for domestically produced American blend-type cigarettes.

Spain's tobacco production, particularly flue-cured and nonfermented burley, is expected to continue to increase under the stimulus of price incentives, technical assistance and favorable credit. Although Spain's fermented burley production is projected to decline to 5,000 tons by the end of the plan, flue-cured and nonfermented burley could increase to around 17,5000 tons each.

Assuming the plan's goal of 17,500 tons of production for each tobacco is met, Spain's greatly increased self-sufficiency in both flue-cured and nonfermented burley, along with the government's requirements for greater use of domestic tobaccos, will mean lower imports of U.S. tobaccos by the end of the plan.—*James Lopes, Economic Research Service. Tel. (202) 447-8289.*

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